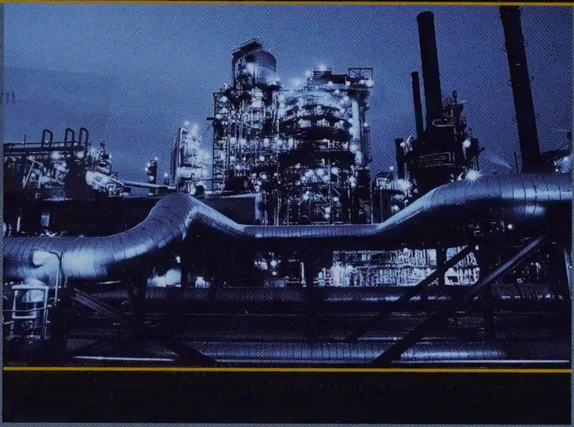
5,700,000



1998 ANNUAL REPORT

CANADIAN OIL SANDS TRUST

Corporate Profile

Canadian Oil Sands Trust was established in June, 1996 and through its subsidiary, Canadian Oil Sands Investments Inc., holds a 10 percent interest in the Syncrude Joint Venture, the world's largest oil sands mining project. Canadian Oil Sands is administered by PanCanadian Petroleum Limited and management of the Trust is overseen by a Board of Directors. The Trust's 27 million units, including the 4 million issued in February of 1998, are owned by investors in Canada and internationally, and are traded on The Toronto Stock Exchange under the symbol CO.UN. Historically, the Trust has paid quarterly distributions to its Unitholders.

The Syncrude Joint Venture was formed to produce synthetic crude oil from oil sand deposits located approximately 40 kilometers north of Fort McMurray, Alberta. The long-life assets are operated by Syncrude Canada Ltd., a company which is owned by the 10 participants in the Syncrude Joint Venture in the same proportions as their interest in the Joint Venture.

76,700,000

During 1998, the Syncrude Joint Venture produced 76,700,000 barrels of Syncrude Sweet Blend, another annual production record.

Contents

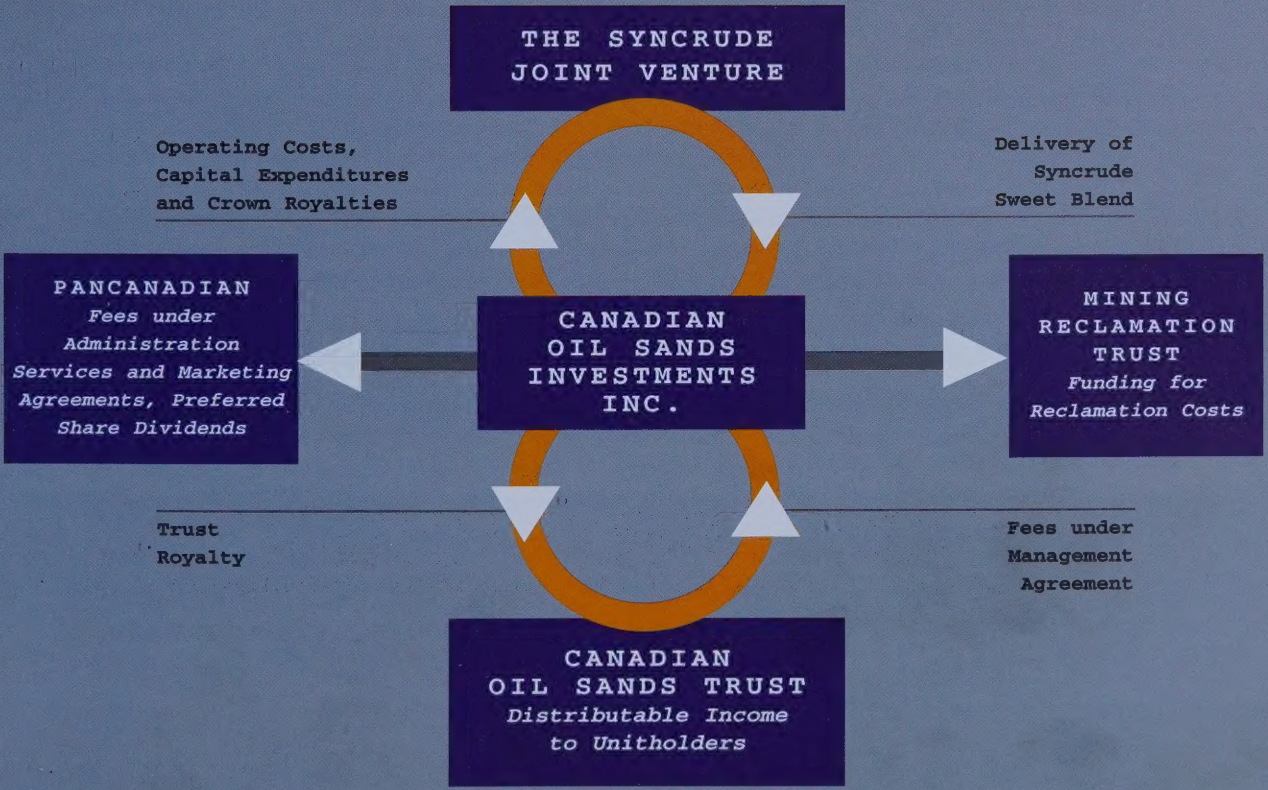
Information provided in this Annual Report with respect to future years is Canadian Oil Sands' best estimate of future events and is based on assumptions and anticipated results that are subject to uncertainties. Actual results may vary significantly from those anticipated due to many factors including crude oil prices, the Canadian/US currency exchange rate, industry conditions, the availability and prices of goods and services as well as government regulations and operating risks. Canadian Oil Sands undertakes no obligation to update publicly or otherwise revise any information related to future years, future events or otherwise.

Corporate Highlights

(in thousands except as otherwise indicated)

	Year Ended December 31, 1998		Year Ended December 31, 1997	
		Per Trust Unit		Per Trust Unit
Net Income	$ 18,010	$ 0.68	$ 51,247	$ 2.23
Cash Flow from Operations	$ 48,022	$ 1.81	$ 78,049	$ 3.39
Distributions to Unitholders	$ 17,550	$ 0.65	$ 41,400	$ 1.80
Capital Expenditures	$ 49,550	$ 1.87	$ 35,358	$ 1.54
Daily Average Sales Volume (barrels)				
Syncrude Sweet Blend	20,997		20,647	
Average Selling Price (dollars per barrel)				
- At Plant Gate	$ 20.40		$ 27.82	
- After Hedging Settlements	$ 20.60		$ 27.85	
Unit Operating Costs (dollars per barrel)	$ 13.53		$ 13.77	

Corporate Structure



To Our Unitholders

In a year marked with a 30 percent drop in crude oil prices, Canadian Oil Sands has made distributions of $0.65 per Trust Unit and strengthened its balance sheet. With $84 million in cash balances and unused lines of credit totalling $250 million at the end of 1998, Canadian Oil Sands is well positioned to withstand a prolonged period of weak oil prices while fully participating in the expansion of the Syncrude Joint Venture.

Canadian Oil Sands has adopted a philosophy of funding distributions from operating cash flow and using some combination of external financing and operating cash flow to fund the growth of the Syncrude Joint Venture. In 1998, Canadian Oil Sands' operating cash flow totalled $48 million enabling distributions to Unitholders of $18 million ($0.65 per Trust Unit) leaving $30 million of funding available for capital spending. Compared to 1997, the $54 million reduction of revenues in 1998 has resulted in a $24 million reduction in distributions to Unitholders.

On February 19, 1998, Canadian Oil Sands issued 4 million Trust Units at a price of $24.00 per unit for net proceeds of $92 million. This issue of equity enables Canadian Oil Sands to conserve its credit facilities to fund the latter stages of the Syncrude Joint Venture expansion. Canadian Oil Sands' debt at the end of 1998, net of cash balances of $84 million, was 0.5 times the 1998 operating cash flow which is substantially superior to most of our competitors. This financial strength is reassuring as global oil prices have remained at a 20-year low for the last half of 1998 and have not improved in early 1999.

On April 16, 1998, the billionth barrel of oil was produced by the Syncrude Joint Venture, ranking it with the few oil fields in Alberta to produce such a volume. This milestone was reached after twenty years of operation, five years ahead of the original schedule. The two-billion-barrel milestone is anticipated in less than ten years.

The production of 76.7 million barrels of Syncrude Sweet Blend in 1998 is a new production record for the Syncrude Joint Venture and represents a slight increase over the 1997 production of 75.7 million barrels. This production record was attained while containing the 1998 unit operating cost to $13.57 per barrel, the lowest level in the project's history. This operating performance includes the successful handling of three unscheduled disruptions at the upgrading facilities as well as the accelerated construction of the Aurora Mine and the expansion of the North Mine. Throughout its twenty years of operation, the Syncrude Joint Venture has a consistent record of providing its owners with positive net cash flow and in 1998 provided net cash flow, after investing over $480 million in capital, of $43 million.

The construction of the Aurora Mine is trending towards a completion within budget and a start-up date in mid-2000 as planned. With the vacuum distillation unit commissioning anticipated in late 1999, the annual operating capacity of the Syncrude Joint Venture is expected to exceed 94 million barrels of Syncrude Sweet Blend in 2000. In November of 1998, the owners of the Syncrude Joint Venture decided to extend the expected completion date of the "Syncrude 21" expansion plan by one year to 2007. The upgrader expansion is currently waiting for the approval of the Alberta Energy and Utilities Board.

Canadian Oil Sands is a supporter of the "Syncrude 21" expansion as the development of the Aurora Mine will provide access to a higher quality ore containing over 2.2 billion barrels of Syncrude Sweet Blend. In addition, the expansion will facilitate operating efficiencies yielding lower operating costs which is fundamental to the Syncrude Joint Venture's future profitability. In light of the current West Texas Intermediate price hovering around US$12.00 per barrel, the owners of the Syncrude Joint Venture are directing efforts to reduce or defer capital spending on maintenance items as well as to reduce operating costs.

For 1999, the Syncrude Joint Venture is targeting:

- production of 82 million barrels,
- unit operating costs at or below $13.00 per barrel,
- the completion of a second train in the North Mine,
- the development of the Aurora Mine, and
- the commissioning of the vacuum distillation unit.

Based on these expectations and an average West Texas Intermediate price of US$15.00 per barrel, Canadian Oil Sands anticipates its 1999 distributions will approximate $0.70 per Trust Unit, subject to sensitivities for oil prices, capital spending, production levels, operating costs and currency exchange rates. The Syncrude Joint Venture's efforts to reduce capital spending and operating costs may improve distribution expectations.

On November 30, 1998, the Board of Directors of Canadian Oil Sands approved a Unitholders' Rights Plan to provide Unitholders, the Trust and its Manager with 60 days, compared to the 21 days allowed by statute, to consider any unsolicited "take-over" bid in order to maximize Unitholder value. This Plan requires Unitholder approval at the April 1999 Annual Meeting.

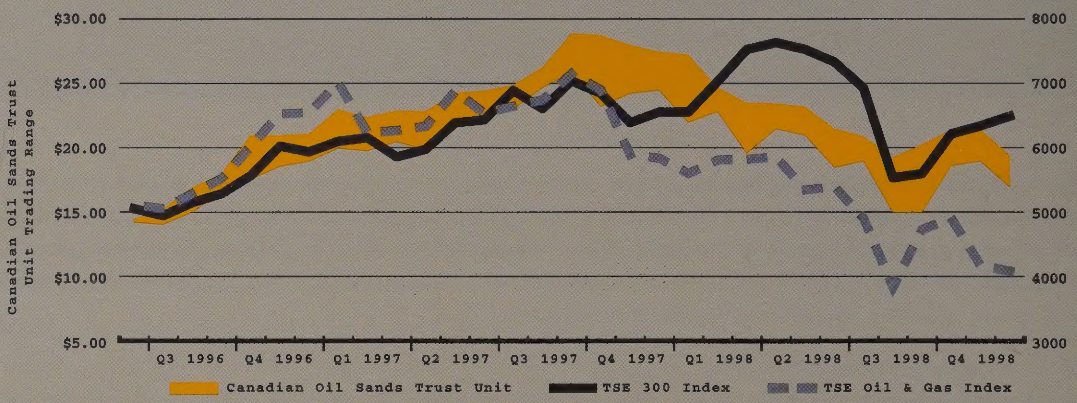
After forty years in the oil patch, Monte Montemurro has retired leaving behind a distinguished career and many friends and associates. Monte's past two years with Canadian Oil Sands has brought a continuity of Syncrude experience and valuable insights as the approval of the Syncrude expansion progresses. On behalf of Canadian Oil Sands and its Unitholders, we wish Monte a long and happy retirement.

Canadian Oil Sands also appreciates the efforts and dedication of the personnel employed by the Syncrude Joint Venture as they provide the operations excellence required for the success of the project, and of PanCanadian employees who provide Canadian Oil Sands with administrative services.

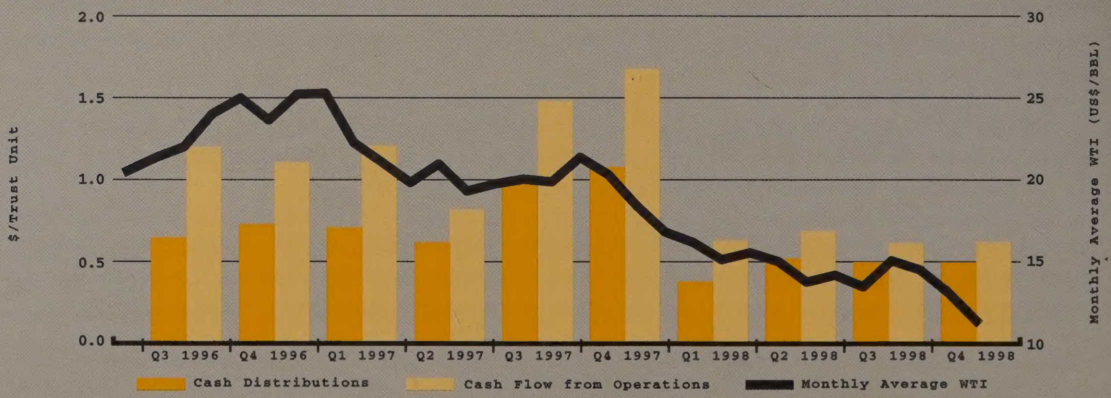
C.E. (Chuck) Shultz
Chairman of the Board
February 10, 1999

B.A. Stevens
Chief Executive Officer

The Trust Units of Canadian Oil Sands have traded on The Toronto Stock Exchange since its Initial Public Offering on June 20, 1996. The Initial Public Offering priced the Trust Units at $14.15 and in 1998, they have traded between $27.25 and $15.00, closing the year at $17.75. Relative to the TSE 300 Index and the TSE Oil and Gas Index, the Trust Units have traded as follows:



Since the inception of Canadian Oil Sands, the Trust Unitholders have received a stable stream of distributions funded by its operating cash flow. Canadian Oil Sands has designated 100 percent of its distributions as a "return of capital" for income tax purposes which enables Unitholders to defer recognition for income tax purposes. The following chart summarizes Canadian Oil Sands' cash distributions and cash flow from operations on a per Trust Unit basis.



During 1998, Canadian Oil Sands improved its net debt to operating cash flow as it prepared for the growth of the Syncrude Joint Venture. At the end of 1998, Canadian Oil Sands' net debt of $24 million was 0.5 times its 1998 operating cash flow, compared to $79 million of net debt at the end of 1997 representing 1.0 times its 1997 operating cash flow.

What differentiates Canadian Oil Sands from conventional oil and gas royalty trusts?

The first area of distinction is the underlying asset of Canadian Oil Sands. The Syncrude Joint Venture has a reserve base to support its current production level for a long period of time (over fifty years) and is a pure oil play with a 20-year track record of growing its production of high quality light oil while lowering operating costs. In addition, the Syncrude Joint Venture has a growth plan which is clearly attainable and has no exploration risk.

The second area relates to how Canadian Oil Sands is managing its financing of the Syncrude Joint Venture expansion. In 1998, Canadian Oil Sands raised equity to fund the early stages of the expansion while retaining its committed lines of credit to finance the balance of the Syncrude 21 capital program. Its balance sheet strength at the end of 1998, a net debt to cash flow of 0.5 times, provides the financial comfort to support the significant capital spending required for the "Syncrude 21" expansion projects as well as the financial stability required for the current low price environment. Consequently, Canadian Oil Sands' distribution policy has not substantially changed from its initial intention of paying a stable stream of distributions, subject to fluctuations in the price of oil.

How does the currency hedge add value to Canadian Oil Sands?

Canadian Oil Sands' operating cash flow is affected by currency exchange fluctuations as its revenues are denominated in US dollars while its operating expenses, normally 50 percent of its revenue, are denominated in Canadian dollars. By hedging 50 percent of the expected revenues, the extent of a squeeze in operating margins is reduced. Since its inception, our currency hedging has added $1.7 million to Canadian Oil Sands' cash flow, net of the $3 million reduction in 1998. In August 1998 when the Canadian dollar was trading at US$0.63, Canadian Oil Sands gained from this exchange rate as 100 percent of its revenues were receiving the market exchange rate and the currency exchange contracts required settlement payments which offset approximately 55 percent of the gains. As the Canadian dollar strengthens, our currency hedge will moderate the impact on Canadian Oil Sands' revenue which is as originally planned.

The mark-to-market valuation of currency exchange contracts reflects the estimated amount required to liquidate the contracts at a point in time. While the valuation may be significant in valuing Canadian Oil Sands Trust Units at a point in time, it is management's intention to settle the currency exchange contracts as they come due over the next eighteen years. The long-term objective will continue to be the reduction of fluctuations in Canadian Oil Sands' revenues.

How will Canadian Oil Sands adjust its activities in response to low oil prices?

In the low price environments of the past, the Syncrude Joint Venture has been able to reduce and defer spending such that the owners' net cash flow after capital spending has been negative in only one year. Canadian Oil Sands supports such expenditure reductions and deferrals. Unlike other years, the Syncrude Joint Venture has undertaken the multi-year development of the Aurora Mine. The Aurora Mine is expected to achieve reductions in mining costs of $2.00 per barrel and these reductions are as advantageous in low as well as higher oil price environments. Accordingly, Canadian Oil Sands continues to support the development of the Aurora Mine.

Having arranged its financing to fully participate in the expansion of the Syncrude Joint Venture, Canadian Oil Sands has the financial capability to withstand a period of low oil prices and maintain its capital commitments to the Syncrude Joint Venture as well as its commitment to a stable stream of distributions to Unitholders. The Board of Directors of Canadian Oil Sands approves each quarter's distribution to Unitholders to ensure financial resources are managed for expansion and that distributions are responsive to the overall business climate. In 1999, Canadian Oil Sands' distributions will reflect the impact of low oil prices as well as changes in the Syncrude Joint Venture's operating costs and capital spending. The Board of Directors will consider the distribution policy in light of reduced operating costs and capital spending by the Syncrude Joint Venture as well as changes to future oil price expectations.

The oil sand deposits mined by the Syncrude Joint Venture are located 40 kilometers north of Fort McMurray in North Eastern Alberta. These large accumulations of oil sands are thought to have evolved as oil migrated over several hundred miles from organic sources in the Alberta Sedimentary Basin into the sands deposited by ancient river systems now known as the McMurray Formation. After many years of exposure to natural forces, the oil was degraded to its current viscous, tar-like hydrocarbon called bitumen. The mineable oil sands are buried beneath up to 30 meters of overburden in seams which vary in thickness, sand consistency and bitumen saturation. The primary economic criteria required to substantiate a proven status for oil sand deposits using surface mining extraction technologies is the total volume of material to be mined relative to the amount of bitumen recoverable using known technologies.

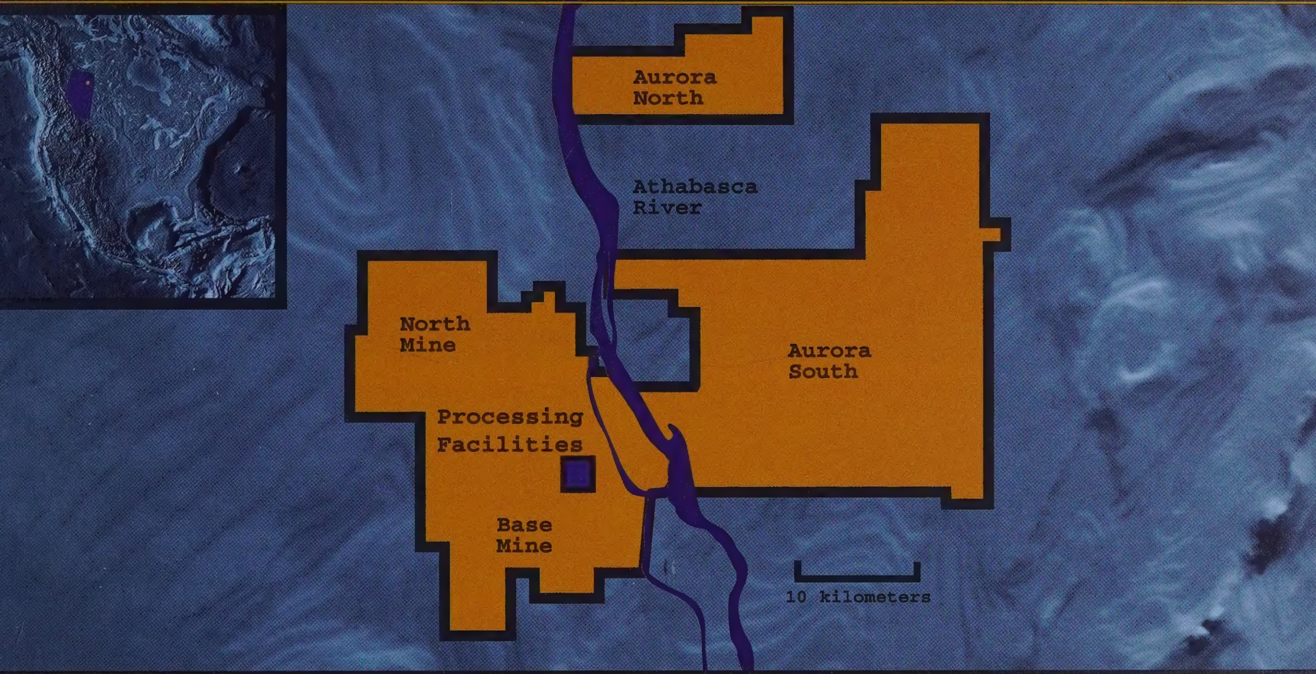
Since 1978, the Syncrude Joint Venture has focused its operations on the Mildred Lake leases, initially at the Base Mine and more recently, at the North Mine. In 1993, the Long Range Mine Plan anticipated the expansion of mining activity with the development of the North Mine using hydrotransport technology to move the oil sand to the processing facilities. The North Mine was commissioned in September, 1997. An expansion of the North Mine is currently under construction with a start-up date planned for the third quarter of 1999. To date, more than a billion barrels of Syncrude Sweet Blend have been recovered from the Mildred Lake leases. As of December 31, 1998, the North Mine and the Base Mine's remaining proven producing reserves are estimated at 1,659 million barrels of Syncrude Sweet Blend, Canadian Oil Sands' share being 165.9 million barrels.

On March 26, 1998, the Syncrude Joint Venture received regulatory approval from the Alberta Energy and Utilities Board to develop the Aurora Mine, an accumulation of high quality reserves located approximately 30 kilometers north of the Base Mine. In June of 1998, the owners of the Syncrude Joint Venture approved the capital expenditures required to develop the Aurora North Mine. Based on data from extensive drill hole coring analysis, the estimated recoverable reserves from the Aurora North Mine are over 2.2 billion barrels of Syncrude Sweet Blend. At the end of 1998, Canadian Oil Sands has recognized 1,088 million barrels of Syncrude Sweet Blend as proven non-producing reserves attributed to the Aurora North Mine, with its share being 108.8 million barrels.

In 1998, the owners of the Syncrude Joint Venture acquired two oil sands leases adjacent to its Aurora South lease at a cost of $38.5 million representing an average cost of approximately $0.01 per barrel of recoverable bitumen. Canadian Oil Sands' 10 percent share of these lease acquisition costs totals $3.8 million with payments of $1.9 million required in each of 1998 and 1999. These leases, including the lease already held by the owners of the Syncrude Joint Venture, are estimated to contain over 4 billion barrels of recoverable bitumen. Although there has been a drill hole coring analysis completed, no proven reserves will be attributed to the Aurora South leases until a formal plan to develop the reserves has been approved.

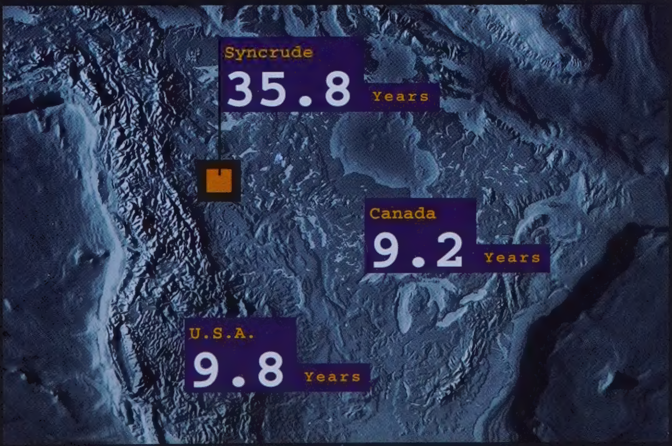
As of December 31, 1998, Canadian Oil Sands has determined the proven reserves of the Syncrude Joint Venture to be 2,747 million barrels of Syncrude Sweet Blend which represents a 23 percent increase from the 2,238 million barrels estimated at the end of 1997. At the end of 1998, the Syncrude Joint Venture has a Reserve Life Index of 36 years based on proven reserves of 2,747 million barrels and an annual productive capacity of 77 million barrels of Syncrude Sweet Blend. The Reserve Life Index is an industry benchmark used to estimate the number of years of productive life for reserves at the current year's production rate.

The Syncrude Mines



Cross Section of Aurora North Mine

North American Reserve Life Index*



* Reserve life data is from the BP Statistical Review of World Oil Energy June 1998

The Syncrude Joint Venture was formed to create value from the commercial development of oil sand deposits in the Athabasca region. Since operations commenced in 1978, the Syncrude Joint Venture has become Canada's largest single source of crude oil, supplying approximately 12 percent of Canada's annual requirement in 1998. Canadian Oil Sands Trust, through its wholly-owned subsidiary, Canadian Oil Sands Investments Inc., owns a 10 percent interest in the Syncrude Joint Venture.

In 1998, the Syncrude Joint Venture produced 76.7 million barrels of light sweet crude oil at an operating cost of $13.57 per barrel, contained sustaining capital expenditures to $116 million, incurred expenditures of $305 million to increase mining capacity and acquired oil sands leases containing an estimated 3.4 billion barrels of bitumen at a cost of $38 million. The light sweet synthetic crude oil, known as Syncrude Sweet Blend, sells in the marketplace at prices approximating the West Texas Intermediate benchmark price due to its low sulphur content and no residual bottom ends. Even in the low oil price environment of 1998, the Syncrude Joint Venture provided its owners with positive net cash flow. These economics may be enhanced by further lowering operating costs and improving bitumen recoveries and yield.

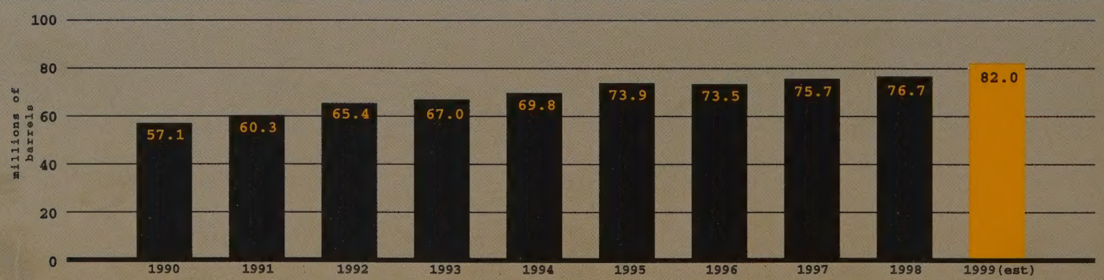
REVIEW OF 1998 OPERATIONS

The Syncrude Joint Venture's 1998 performance reflects continued growth in annual production and the containment of operating costs despite encountering three unscheduled disruptions during the year. Compared to expectations for 1998, production was 3.3 million barrels short of plan with the unit operating costs approximating plan as the operating costs were $45 million less than plan.

76.7 Million Barrels sets another Annual Production Record

The Syncrude Joint Venture's 1998 annual production totalled 76.7 million barrels which was 1 million barrels over 1997, is its 17th record-breaking year and includes its billionth barrel of Syncrude Sweet Blend, a production milestone achieved by few ventures. During the month of June, a new monthly production record was set with 7.5 million barrels produced. The 1998 extraction recovery rate of 91.6 percent is 0.6 percent higher than 1997 representing the benefits of increased coordination between extraction and mining operations to optimize the blending of ore grades as well as process enhancements in the extraction facilities. The yield of Syncrude Sweet Blend from bitumen also recorded a 0.1 percent improvement over 1997.

The North Mine provided approximately one-third of the bitumen mined in 1998. The successful operation of the North Mine is significant as the expansion of the North Mine and the development of the Aurora North Mine incorporate many of the same technology improvements. For example, the Mildred Lake facilities have incorporated the ore slurry from the North Mine contributing to the improvement in the bitumen recovery and yield factors compared to 1997.



Operating Cost Trend Lower to $13.57 per Barrel

The 1998 operating costs for the Syncrude Joint Venture totalled $1,040 million compared to $1,043 million in 1997 while the 1998 unit operating cost of $13.57 per barrel is the lowest in its history. The 1997 unit operating cost was $13.77. The 1998 operating costs are relatively unchanged from 1997 with increased expenditures on natural gas and catalysts offset by deferrals of overburden removal costs. The impact of the three unscheduled production disruptions did not materially change the year's operating costs, however had these disruptions not occurred, the unit operating cost would have been approximately $13.00 per barrel based on 80 million barrels of production.

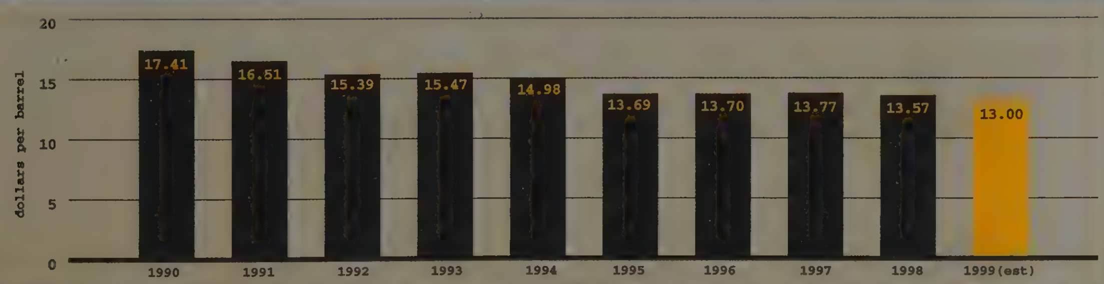
Sustaining Capital Expenditures Held to $116 million in 1998

In 1998, the Syncrude Joint Venture incurred $116 million to maintain the existing processing facilities and Base Mine at Mildred Lake compared to $125 million spent in 1997. The 1998 expenditures were $37 million less than plan as the Syncrude Joint Venture responded to the low oil price environment. The most significant expenditures of a sustaining nature in 1998 were $31 million on tailings management initiatives and $24 million on the chlorides management project.

Environment and Safety Performance

The Syncrude Joint Venture is committed to leading-edge performance in environmental protection and has set targets to continuously increase energy efficiency and reduce greenhouse gas emissions on a per barrel of production basis. In its twenty years of operation, the Syncrude Joint Venture has not had a major environmental incident, nor a fine or control order for non-compliance with environmental regulations. Its performance in 1998 is in line with its past track record. The Syncrude Joint Venture has continued its pledge to return the land to a stable, biologically self-sustaining state that has a productive capacity equal to its condition prior to mining. During 1998, approximately 210 hectares of land were reclaimed at a cost of over $4 million, bringing the reclaimed land to date to 2,260 hectares including the planting of over 1.8 million trees.

The Syncrude Joint Venture's 1998 safety record exceeded 1997 by 75 percent, being its best performance on record. The Syncrude Joint Venture's commitment to safety is integrated into its core management systems. Each employee receives comprehensive training and is empowered to take the steps necessary to eliminate hazards and reduce risks to people as well as to the environment and equipment.



The "Syncrude 21" Expansion

Aurora Mine Site Under Construction

In November of 1997, the Syncrude Joint Venture embarked on a four stage expansion plan to increase its annual productive capacity to 155 million barrels of higher quality crude oil through the expenditure of more than $6 billion on capital projects. The "Syncrude 21" expansion plan is a ten year plan consisting of four stages, each of which can be completed without advancing to the next stage, thereby limiting financial commitments. This approach provides "off ramps" from the plan if economic conditions change as the expansion progresses. The economics of each stage individually adds value to the Syncrude Joint Venture by reducing operating costs as well as increasing productive capacity.

Throughout 1998 and particularly late in the fourth quarter, crude oil prices declined in response to the Organization of Petroleum Exporting Countries' increasing production, deteriorating economic conditions in Southeast Asia, the extension of the United Nations' oil sale agreement with Iraq and a warm winter in North America. These events contributed to a worldwide crude oil supply/demand imbalance resulting in world oil prices dropping to their lowest level since 1986. While the "Syncrude 21" expansion plans announced in 1997 have been revised to reflect the low oil price environment experienced in 1998, the pursuit of lower operating costs and improving operating performance remain intact. Stages I and II of the "Syncrude 21" expansion plan meet these criteria as they assure an economic low cost supply of bitumen feed for the future.

In late 1998, the owners of the Syncrude Joint Venture approved a revised business plan to reflect the anticipated lower operating cash flow resulting from low oil prices. The revised plan defers capital spending but will not impact the planned completion date for the Stage II projects. These revisions were made in an attempt to balance capital spending plans with the reduced level of future operating cash flows resulting from anticipated weak oil prices.

Canadian Oil Sands continues to support the expansion of the Syncrude Joint Venture. The incremental economics of increasing capacity while utilizing the existing infrastructure and benefits derived from applying developed technologies to further reduce bitumen supply costs and improve the yield of Syncrude Sweet Blend are the Syncrude Joint Venture's competitive advantage. The Syncrude Joint Venture also has access to a significant bitumen resource base to support its large scale facility over an extended period of time.

In 1998, expenditures on "Syncrude 21" initiatives totalled $341 million, a 60 percent increase over the $213 million of expansion spending in 1997.

Stage I (Capital Spending of $58 million in '98) provides that approximately 40 percent of Syncrude's bitumen feed will be produced by the North Mine using a truck and shovel operation to mine the ore and the hydrotransport system to move slurry to the Mildred Lake upgrading facilities. The bitumen supply from the North Mine will enable the decommissioning of two dragline/bucket wheel systems in the Base Mine and two tumblers in the extraction plant which will significantly reduce the costs of mining and maintenance.

To the end of 1998, the first train of the North Mine had been operating efficiently for sixteen months and the construction of the second train is ahead of schedule with its commissioning expected in the third quarter of 1999. With the completion of Stage I, Syncrude anticipates that its annual productive capacity will exceed 82 million barrels at a unit operating cost at or below $13.00 per barrel.

Stage II (Capital Spending of $247 million in '98) of the plan includes the construction of the Aurora North Mine, the addition of a vacuum distillation unit and the debottlenecking of the Mildred Lake upgrading facilities. The first train of the Aurora North Mine is expected to be commissioned in mid-2000 and will provide the Mildred Lake facilities with a bitumen slurry further reducing Syncrude's use of tumblers in the extraction plant. The vacuum distillation unit, to be completed in late 1999, will remove the top ends from the bitumen feed thereby increasing the capacity of the upgrading facilities as the coking units will process only the "topped bitumen" with the top ends by-passing the cokers. The completion of Stage II should enable the annual production to exceed 94 million barrels at a unit operating cost of less than $12.00 per barrel.

The owners of the Syncrude Joint Venture approved the Stage II expenditures in June of 1998 and by year end, significant purchase commitments had been made with suppliers and the work was progressing as scheduled with expenditures expected to be under initial expectations. At the Aurora North Mine site, the mine opening is 62 percent complete and the construction of significant facilities, the surge facility, the primary separation vessel and the electrical generation units, is progressing without delay. The remaining cost to complete Stage II is estimated at $650 million.

Stage III involves adding a third coker to the Mildred Lake upgrading facilities as well as increasing the capacity of the Aurora North Mine. The plan will be to significantly increase the Syncrude Joint Venture's annual production capacity as well as improve the quality of Syncrude Sweet Blend. The improved quality will increase the marketability of Syncrude Sweet Blend within its traditional crude oil markets thereby avoiding increased transportation costs. It is anticipated that Stage III will increase annual production capacity to 128 million barrels with a further reduction in unit operating costs. The regulatory application for the expansion of the upgrading facilities has been submitted to the Alberta Energy and Utilities Board and their approval is expected in late 1999. The owners of the Syncrude Joint Venture have approved the Stage III plan concept, however, the formal approval to proceed is not required until late 2000.

Stage IV is designed to maximize the benefits of the increased coking capability. The further expansion of the Aurora Mine finalizes the move to new mining technologies and the closure of the dragline/bucket wheel and conveyor belt systems operating in the Base Mine. Stage IV should bring the annual production capacity to 155 million barrels at an estimated unit operating cost approaching $11.40 per barrel. Similar to Stage III, this stage requires the approval of the owners of the Syncrude Joint Venture.

If the current historic low oil prices continue, the owners may change or defer the scope and timing of Stages III and IV.

(All tabular amounts are in thousands, except per barrel amounts)

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related Auditors' Report found on pages 16 to 23 of this Annual Report.

REVIEW OF 1998 ACTIVITY

Cash flow from operations for the year totalled $48.0 million ($1.81 per Trust Unit) compared to $78.0 million ($3.39 per Trust Unit) in 1997. The $30.0 million drop in cash flow is primarily the result of weak oil prices in 1998 relative to 1997 partially offset by the substantial reduction of Crown Royalties due to the lower operating profits and the Crown Royalty investment credit earned as a result of a higher level of capital spending.

Business Environment

The 1998 business environment for Canadian Oil Sands was dominated by weak oil prices with the West Texas Intermediate prices averaging US$16.72 per barrel in January and declining during the remainder of the year to an average of US$11.31 per barrel in December. In 1998, the price Canadian Oil Sands received for Syncrude Sweet Blend delivered to Edmonton averaged US$0.29 per barrel less than the West Texas Intermediate benchmark price. Partially offsetting the decline in oil prices, Canadian producers received a benefit from the weakening of the Canadian dollar relative to the US dollar. The US/Canadian dollar exchange rate averaged $0.675 during 1998 compared to $0.722 in 1997. As a result, Canadian Oil Sands realized an average price of $20.40 per barrel, prior to hedging, in 1998 compared to $27.82 in 1997.

	WTI Average Price (in US dollars)		Realized Oil Price (in Canadian dollars)	
	1998	1997	1998	1997
First Quarter	$ 15.95	$ 22.77	$ 21.60	$ 30.12
Second Quarter	$ 14.68	$ 19.94	$ 20.95	$ 27.04
Third Quarter	$ 14.15	$ 19.80	$ 20.83	$ 26.90
Fourth Quarter	$ 12.92	$ 19.94	$ 18.59	$ 27.48
Annual	$ 14.40	$ 20.61	$ 20.40	$ 27.82

Production

Canadian Oil Sands' production in 1998 totalled 7.7 million barrels of Syncrude Sweet Blend, slightly more than the 7.6 million barrels produced in 1997. This increase in 1998 was achieved in spite of three disruptions in Syncrude's operations due to equipment failure in the upgrading facilities. There was an unscheduled maintenance turnaround in January which eliminated the scheduled turnaround planned for April while a second coke circulation problem in August and an equipment failure in November resulted in a 4 percent short-fall from the planned 1998 production. Canadian Oil Sands' daily production averaged 22,042 barrels in December 1998 compared to 20,997 barrels for the 1998 calendar year with the December volume representing normal operations with improved bitumen recovery rates and yields of Syncrude Sweet Blend per barrel of bitumen. Production is reported on a before Crown Royalty basis.

Revenues

Canadian Oil Sands' revenues aggregate the following:

	1998	1997
Sale of Syncrude Sweet Blend	$ 155,516	$ 209,273
Oil price hedging settlements	4,545	(2,491)
Currency exchange hedging settlements	(2,961)	2,743
Interest and other	4,193	979
	$ 161,293	$ 210,504

The revenue from the sale of Syncrude Sweet Blend, after the marketing fee and the effects of oil price and currency exchange hedging, was $20.60 per barrel in 1998 compared to $27.85 per barrel in 1997. Canadian Oil Sands' production volume averaged 20,997 barrels per day in 1998, slightly higher than 20,647 barrels per day in 1997.

The hedging settlements reflect the net cash receipts and payments required to settle the hedging contracts related to 1998 and 1997. Canadian Oil Sands' hedging positions are more fully described on pages 13 and 14 of this Annual Report.

The significant increase in the Interest and other revenue is due to the $3.8 million of interest revenue earned on the proceeds from the equity issue completed in February of 1998.

Operating Costs

Operating costs, including the Syncrude Joint Venture's administrative costs, for 1998 totalled $103.4 million ($13.53 per barrel) compared to $103.8 million ($13.77 per barrel) in 1997.

Crown Royalties

Crown Royalties were substantially eliminated in 1998 compared to $20.2 million ($2.68 per barrel) in 1997. The reduction in the Crown Royalty charge reflects the substantially lower oil prices in 1998 as well as the impact of the 43 percent Crown Royalty investment credit on the $14.2 million increase in capital spending during 1998. See note 10 to the Consolidated Financial Statements for a detailed description of the Crown Royalty computations.

Capital Expenditures

Canadian Oil Sands' capital expenditures are comprised of the following:

	1998	1997
Lease acquisition costs	$ 3,850	$ 1,575
Sustaining expenditures	11,620	12,500
Expansion expenditures	34,080	21,283
	$ 49,550	$ 35,358

Mining Reclamation Trust

Canadian Oil Sands contributed $0.8 million in each of 1998 and 1997 to its reclamation trust. It is anticipated that these contributions, along with accumulating interest, will be sufficient funding to pay Canadian Oil Sands' share of the Syncrude Joint Venture's anticipated reclamation costs. See note 12 to the Consolidated Financial Statements for the details of the funding requirements of the reclamation trust.

Administration Costs

Canadian Oil Sands' administration costs for 1998 totalled $2.9 million ($0.38 per barrel) compared to $3.3 million ($0.44 per barrel) for 1997. Included in administration costs are fees paid to PanCanadian Petroleum Limited totalling $1.6 million in 1998 ($2.4 million in 1997) in respect of administration and support services. This fee is calculated as 2.75 percent of Canadian Oil Sands' revenues less operating costs and Crown Royalty payments. In addition, the Trust incurred $381,000 of expenses in 1998 compared to $451,000 in 1997.

Financing Costs

Canadian Oil Sands' financing costs are the aggregate of the following:

	1998	1997
Interest charges on 7.625% Senior Notes	$ 8,094	$ 4,548
Interest rate hedging settlements	(1,814)	(1,994)
Interest charges on acquisition bank loan	-	1,515
Standby charges on line of credit and interest on short term borrowings	392	201
	$ 6,672	$ 4,270

The interest on the US$70 million 7.625% Senior Notes is paid in US dollars. After including the interest rate hedging settlements, the effective interest rate on the 7.625% Senior Notes was 6.0 percent in 1998 compared to 4.2 percent in 1997 on the 7.625% Senior Notes and acquisition bank loan. Commencing on May 20, 1997, the financing costs include interest charges on the 7.625% Senior Notes and related interest rate hedging settlements replacing the interest charges on the acquisition bank loan which was repaid on May 20, 1997. The details of the interest rate hedging are more fully described on page 14 of the Management's Discussion and Analysis and note 8 of the Consolidated Financial Statements.

See note 4 to the Consolidated Financial Statements for the details of the standby charges and interest rates on short term borrowings.

Income Taxes

Canadian Oil Sands is liable for both the Large Corporations Tax and corporate income taxes. During 1998, Canadian Oil Sands paid $395,000 in Large Corporations Tax which is assessed on the amount of taxable capital employed by the corporation compared to $318,000 paid in 1997. Canadian Oil Sands did not pay corporate income tax in 1998 or 1997 as its taxable income was sheltered by payments made pursuant to the Trust Royalty and by Resource Allowance and Capital Cost Allowance deductions.

The Trust is a Mutual Fund Trust for income tax purposes, and as such, is taxable only to the extent of any taxable income not allocated to its Unitholders. The Trust Royalty payments paid to the Trust by Canadian Oil Sands are taxable receipts for the Trust as is the interest received from investing activities. The Trust has eliminated its taxable income in 1998 and 1997 by deducting its administrative expenses, the amortization of issue costs and the amortization of the cost of the Trust Royalty. With its taxable receipts fully sheltered in 1998 and 1997, the Trust is entitled to designate its Cash Distributions as a return of capital for income tax purposes. With over $237 million of Trust Royalty costs available to shelter taxable receipts in the future, it is anticipated that the Trust will be able to distribute in excess of $8.75 per Trust Unit as a return of capital in future years.

LIQUIDITY AND CAPITAL RESOURCES

At the end of 1997, Canadian Oil Sands had cash balances of $21.3 million and unused lines of credit totalling $250 million. On February 19, 1998, the cash balances were bolstered with the issue of 4 million Trust Units at a price of $24.00 per Trust Unit for net proceeds of $92.0 million.

During 1998, Canadian Oil Sands generated $48.0 million of cash flow from operations of which $30.4 million funded capital expenditures and $17.6 million was distributed to the Trust Unitholders. A further $17.6 million of external financing was utilized to complete the funding of capital expenditures. At the end of 1998, Canadian Oil Sands had cash reserves of $83.6 million and unused lines of credit totalling $250 million.

At the end of 1998, Canadian Oil Sands' net debt, after deducting its cash balances of $83.6 million, was $23.5 million which resulted in a 0.5 net debt-to-operating cash flow ratio using the 1998 operating cash flow of $48.0 million compared to a ratio of 1.0 at the end of 1997.

In September 1998, Canadian Oil Sands amended certain of its currency exchange contracts to permit the collateralization of mark-to-market deficiencies in excess of US$50 million but less than US$100 million. Under the amended credit arrangements, a Value Replacement Payment is only required when the related mark-to-market deficiency exceeds US$100 million; this deficiency was US$34.1 million on December 31, 1998, and US$7.7 million on February 10, 1999.

RISK MANAGEMENT

Canadian Oil Sands is subject to the operational risks inherent in the oil sands business. As a partner in the Syncrude Joint Venture, it actively participates in the operational risk management programs implemented by the Syncrude Joint Venture. Its exposure to operational risks is also managed by maintaining appropriate insurance. To mitigate its exposure to financial risks such as fluctuations in commodity prices, foreign currency exchange rates and interest rates, Canadian Oil Sands has a financial risk management program.

Insurance Coverage

Canadian Oil Sands maintains $70 million of physical loss insurance coverage with a $5 million deductible which will mitigate property damages experienced by the Syncrude Joint Venture up to $750 million. Canadian Oil Sands also maintains $120 million of business interruption insurance, subject to a 30-day deductible period, to restore earnings lost due to an accidental disruption in Syncrude operations.

Currency Exchange Rate Risk

Canadian Oil Sands is exposed to fluctuations in the US/Canadian currency exchange rates as a result of generating oil sales revenues in US dollars and having interest payments in US dollars on its 7.625% Senior Notes obligations. Canadian Oil Sands minimizes its currency exchange rate risk by entering into currency exchange contracts which fix the exchange rate in future years, and through the use of US dollar financing, the 7.625% Senior Notes. At the time of its Initial Public Offering in 1996, Canadian Oil Sands entered into a 20-year currency exchange contract which hedged approximately 35 percent of its anticipated revenues at an exchange rate of US$0.694 per Canadian dollar. In 1998, Canadian Oil Sands entered into another currency exchange contract which fixed the exchange rate on an additional US$5 million per quarter to December 2002 at US$0.692 per Canadian dollar with the counter-party receiving an option to extend the contract for a further five years at the same exchange rate.

In 1998, the currency exchange contracts aggregated to US$17 million per quarter, except for the first quarter which was US$12 million, with the cash settlements reducing Canadian Oil Sands' revenue by $3.0 million. In 1997, the settlement of US$12 million per quarter added $2.7 million to Canadian Oil Sands' revenues. Since the inception of Canadian Oil Sands, the currency exchange hedges have added $1.7 million to Canadian Oil Sands' revenue.

On February 10, 1999, the mark-to-market deficiency on all of Canadian Oil Sands' currency exchange contracts, including the deficiency on the amended contracts, was $20.0 million with a US/Canadian currency exchange rate of $0.670 per Canadian dollar. On February 10, 1998, the mark-to-market value of its currency exchange contracts totalled $47.0 million when the US/Canadian currency exchange rate was $0.700 per Canadian dollar.

Crude Oil Price Risk

Canadian Oil Sands is exposed to changes in crude oil prices as a result of fluctuating prices received for its oil production. This exposure to changing oil prices is hedged using oil price contracts based on the New York Mercantile Exchange's West Texas Intermediate futures contracts as the prices received for Syncrude Sweet Blend fluctuate within a narrow differential to West Texas Intermediate prices. In early October 1997, Canadian Oil Sands entered into oil price put options which provided a floor price of US$21.00 per barrel for 10,000 barrels per day for the fourth quarter of 1997 as well as 7,000 barrels per day for the first quarter of 1998. The cost of these options was funded with US$1.0 million of gains from the sale of approximately US$44 million of currency exchange contracts related to 2012 through 2015. This enabled Canadian Oil Sands to utilize its 1997 operating cash flow for Cash Distributions to Unitholders.

The options for the first quarter of 1998 were settled with the receipt of $4.5 million by Canadian Oil Sands representing US$5.05 per barrel hedged; the cost of these options was US$0.95 per barrel. The cost of the options for the fourth quarter of 1997 was US$0.52 per barrel with a settlement receipt totalling $1.6 million, $2.04 per barrel hedged. The 1997 gain partially offset the $3.4 million payment required to buy back oil price contracts placed in 1996 in respect of 1997 production. Canadian Oil Sands has not entered into any oil price contracts for periods beyond December 31, 1998.

It is management's intention to use oil price hedging from time to time to ensure cash flow is available to meet capital commitments and maintain reasonable levels of distributions.

Interest Rate Risk

Canadian Oil Sands is exposed to changes in interest rates as a result of interest payments associated with its 7.625% Senior Notes. Subsequent to issuing the 7.625% Senior Notes, Canadian Oil Sands has entered into interest rate swap agreements to minimize the interest cost of these notes. At the end of 1997, the fixed rate US dollar payment had been exchanged for a floating rate Canadian dollar payment. During 1998, the floating rate Canadian dollar payment has been exchanged for a fixed rate US dollar payment. The net result is the fixed rate US dollar payment on the 7.625% Senior Notes has been exchanged for a 5.95 percent fixed rate US dollar payment for the remaining term. The net interest payments on the 7.625% Senior Notes have been reduced by $1.8 million in 1998 and $2.0 million in 1997.

YEAR 2000

Canadian Oil Sands is well aware of the Year 2000 Issue. Canadian Oil Sands relies on the Syncrude Joint Venture's computer systems to control much of the processing and financial reporting functions as well as the computer systems of PanCanadian Petroleum Limited for financial reporting, and various administrative support functions. Canadian Oil Sands is monitoring the progress of both PanCanadian and the Syncrude Joint Venture as they assess the impact of the Year 2000 Issue in their respective computer systems.

All of the costs related to the Syncrude Joint Venture Year 2000 Project have been expensed as incurred except for new computer hardware and software, which is capitalized and amortized using the unit-of-production method. To the end of 1998, the Syncrude Joint Venture has incurred $15.3 million on its Year 2000 Project and the additional costs to complete are estimated at $5.0 million; Canadian Oil Sands' share of these costs are $1.5 million and $0.5 million, respectively. Canadian Oil Sands is not responsible for any of the costs related to PanCanadian's Year 2000 Project.

Based on information available in early 1999, Canadian Oil Sands believes that the Syncrude Joint Venture and PanCanadian will be Year 2000 ready in time to minimize any potential disruptions to operations. However, there can be no assurance that Year 2000 remediation efforts will be successful or that critical business partners will be Year 2000 ready. The impact of failure to complete Year 2000 efforts properly or on a timely basis is not yet known. If such efforts are unsuccessful, there could be a material adverse effect on Canadian Oil Sands' results of operation, liquidity or financial position.

As of December 31, 1998, the Syncrude Joint Venture believes that all critical systems have been assessed as to their Year 2000 readiness and that all non-compliant systems identified in this assessment have been modified or replaced to minimize the impact of the Year 2000 Issue. While the readiness of its suppliers of goods and services cannot be guaranteed, the Syncrude Joint Venture is in the process of developing contingency plans to mitigate the disruption of a Year 2000 failure within its supply chain.

PanCanadian has made significant progress toward achieving Year 2000 readiness. The remediation, testing and implementation of critical systems were substantially completed in 1998 and will continue into 1999 for other less critical systems. The status of remaining hardware and application replacement projects is being closely monitored and current indications are that all projects are proceeding according to schedule. PanCanadian is also developing contingency plans to minimize disruption to its operations. Canadian Oil Sands' suppliers and customers are also suppliers and customers of PanCanadian, and accordingly, Canadian Oil Sands' contingency plans will lever off PanCanadian's contingency planning.

DISTRIBUTABLE INCOME

Distributable Income for 1998 totalled $17.6 million ($0.65 per Trust Unit) compared to $41.4 million ($1.80 per Trust Unit) for 1997. At the end of 1997, a Reserve for Future Production Costs of $3.3 million ($0.14 per Trust Unit) had been accrued in respect of future capital expenditures and operating costs; this reserve was added to Distributable Income in the First Quarter of 1998. Distributable Income in 1997 included $3.4 million of surplus cash.

	Year Ended December 31, 1998		Year Ended December 31, 1997	
		Per Bbl		Per Bbl
Revenue				
Sale of Syncrude Production	$ 155,516	$ 20.35	$ 209,273	$ 27.77
Hedging Settlements	1,584	0.21	252	0.03
Interest Income and Other	412	0.05	979	0.13
	157,512	20.61	210,504	27.93
Expenses				
Operating	(103,432)	13.53	(103,768)	13.77
Crown Royalties	(55)	.01	(20,184)	2.68
Administration	(2,893)	0.38	(3,351)	0.44
Financing Costs	(6,672)	0.87	(4,270)	0.57
Capital Taxes	(395)	0.05	(318)	0.04
	(113,447)	14.84	(131,891)	17.50
Operating Cash Flow	44,065	5.77	78,613	10.43
Capital Expenditures	(49,550)	(6.48)	(35,358)	(4.69)
Utilization of External Financing	17,600	2.30	-	-
Mining Reclamation Trust	(816)	(0.11)	(763)	(0.10)
Site Restoration Costs	(323)	(0.04)	(325)	(0.04)
Reserve-Future Production Costs	3,317	0.43	(3,280)	(0.44)
Base for Trust Royalty	$ 14,293	$ 1.87	$ 38,887	$ 5.16
Sales Volume (in 000s of Bbls)	7,643		7,536	
Trust Distributions				
Trust Royalty 99% of Base	$ 14,150		$ 38,498	
Interest Earned on Short-Term Investments	3,781		-	
Distribution of Surplus Cash	-		3,353	
Trust Administration	(381)		(451)	
Distributable Cash	$ 17,550		$ 41,400	
Distributable Cash per Trust Unit	$ 0.65		$ 1.80	

OUTLOOK FOR 1999

Canadian Oil Sands' operating cash flow is sourced from its working interest in the Syncrude Joint Venture with revenues subject to fluctuations in the price of West Texas Intermediate crude oil. Subject to oil price fluctuations, Canadian Oil Sands intends to make quarterly cash distributions to its Unitholders and fund capital expenditures of a sustaining nature from its operating cash flow. While maintaining its balance sheet strength, Canadian Oil Sands intends to finance the expansion of the Syncrude Joint Venture using a combination of external financing and operating cash flow.

Syncrude Operations

Based on its 1999 budget, the Syncrude Joint Venture expects to produce 82 million barrels of Syncrude Sweet Blend with a unit operating cost at or below $13.00 per barrel compared to 76.7 million barrels in 1998 at a cost of $13.57 per barrel. Capital expenditures were initially expected to total approximately $700 million including $570 million in respect of the Syncrude Joint Venture expansion. The highlights of the 1999 capital spending program are the completion of the second train in the North Mine, the construction of the Aurora Mine's first train and the addition of a vacuum distillation unit and debottlenecking of the Mildred Lake facilities. The utilities plant and froth treatment facilities will also increase their respective capacities. A detailed review of the capital expenditure program is currently underway to identify items that can be eliminated, reduced or deferred.

Cash Distributions to Trust Unitholders

Distributable Income, as defined in the Trust Indenture, is to be distributed to the Unitholders on the 15th day of the second month following the end of each calendar quarter. With the expansion of the Syncrude Joint Venture using some combination of its cash balances and operating cash flow, Unitholders should anticipate receiving a stable stream of income in 1999, subject to fluctuations in oil prices.

Sensitivity Analysis

Canadian Oil Sands has developed its 1999 budget based on its expectations for crude oil prices, the US/Canadian currency exchange rates, production volumes, operating expenses and capital expenditures. Significant reductions or deferrals in operating costs and/or capital expenditures may cause these distribution sensitivities to change. The following provides the expected change in Distributable Income caused by a change in one of these factors:

	Change in Distributable Income (per Trust Unit)
US$1.00 change in price of West Texas Intermediate Crude Oil	**$ 0.40**
$0.50 change in unit operating costs per barrel	**$ 0.13**
2 million barrel change in Syncrude's production	**$ 0.12**
US$0.01 change in US/Canadian currency exchange rate	**$ 0.06[1]**

(1) The impact of the change in the US/Canadian currency exchange rate has been calculated taking into account currency hedging activities.

Management's Report

Management is responsible for all information contained in this annual report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles, and include amounts based on management's informed judgements and estimates. The financial and operating information included in this annual report is consistent with that contained in the consolidated financial statements in all material respects.

To assist management in fulfilling its responsibilities, systems of accounting and internal controls are maintained to provide reasonable assurance that financial information is reliable and accurate, and that assets are adequately safeguarded.

External auditors, appointed by the Unitholders, have independently examined the consolidated financial statements and conducted a review of accounting and internal controls to the extent required under generally accepted auditing standards. They have performed such tests as they deemed necessary to enable them to express an opinion on these financial statements.

The Board of Directors also serves as the Audit Committee. The Board of Directors meets periodically with the external auditors to discuss controls over the financial reporting. In addition, the Board of Directors recommends the appointment of the external auditors, who are elected annually by the Unitholders. The Board of Directors has reviewed the financial statements and the contents of this annual report with management and the external auditors. The Board of Directors has approved the consolidated financial statements.

C E Shultz

C.E. (Chuck) Shultz
Chairman

R Fotheringham

R.W. Fotheringham
Chief Financial Officer

January 26, 1999

Auditors' Report

To the Unitholders of
Canadian Oil Sands Trust

We have audited the consolidated balance sheet of Canadian Oil Sands Trust (the "Trust") as at December 31, 1998 and December 31, 1997 and the consolidated statements of income and unitholders' equity and changes in cash position for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 1998 and December 31, 1997 and the results of its operations and changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta
January 26, 1999

Consolidated Balance Sheet

(thousands of dollars)

	December 31, 1998	December 31, 1997
ASSETS		
Current Assets		
Cash	$ 83,580	$ 21,268
Accounts receivable	13,831	22,254
Inventories	11,486	10,424
Prepaid expenses	446	266
	109,343	54,212
Reclamation trust (note 12)	1,994	1,178
Capital assets, net of accumulated depletion, depreciation and amortization of $65,224 in 1998, $37,751 in 1997	445,636	423,559
Deferred charges	12,584	6,029
	$ 569,557	$ 484,978
LIABILITIES AND UNITHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 13,690	$ 18,561
Distribution to Unitholders payable	2,700	13,800
Current portion of other liabilities (note 3)	2,825	675
	19,215	33,036
Other liabilities (note 3)	11,853	13,690
7.625% Senior Notes (note 5)	107,100	100,100
Future site restoration and reclamation costs (note 12)	9,019	8,192
Preferred shares of subsidiary (note 6)	2,000	2,000
	149,187	157,018
Unitholders' equity (note 7)	420,370	327,960
	$ 569,557	$ 484,978

Commitments (note 13)

See accompanying notes

Approved by the Board

Director

Director

Consolidated Statement of Income and Unitholders' Equity

(thousands of dollars except per unit amounts)

	Year Ended December 31, 1998	Year Ended December 31, 1997
REVENUES	**$ 161,293**	$ 210,504
EXPENSES		
Operating	**103,432**	103,768
Administration	**3,273**	3,794
Crown Royalties (note 10)	**55**	20,184
Interest	**6,672**	4,270
Depletion, depreciation and amortization	**29,156**	26,703
Large Corporations Tax	**395**	318
Dividends on preferred shares of subsidiary (note 6)	**300**	220
	143,283	159,257
NET INCOME FOR THE YEAR	**18,010**	51,247
UNITHOLDERS' EQUITY, BEGINNING OF THE YEAR	**327,960**	318,113
PROCEEDS ON ISSUE OF 4,000,000 TRUST UNITS	**91,950**	–
DISTRIBUTIONS TO UNITHOLDERS	**(17,550)**	(41,400)
UNITHOLDERS' EQUITY, END OF YEAR	**$ 420,370**	$ 327,960
NET INCOME PER TRUST UNIT	**$ 0.68**	$ 2.23
DISTRIBUTABLE INCOME PER TRUST UNIT	**$ 0.65**	$ 1.80

See accompanying notes

Consolidated Statement of Changes in Cash Position

(thousands of dollars)

	Year Ended December 31, 1998	Year Ended December 31, 1997
CASH PROVIDED BY (USED IN):		
OPERATIONS:		
Net income	**$ 18,010**	$ 51,247
Items not requiring an outlay of cash:		
Depletion, depreciation and amortization	**30,012**	26,802
Cash flow from operations	**48,022**	78,049
Net change in deferred items	**(2,779)**	(1,067)
Site restoration costs	**(323)**	(325)
Change in non-cash working capital	**(6,642)**	1,730
	38,278	78,387
FINANCING:		
Repayment of long-term debt	**-**	(95,000)
Issuance of 7.625% Senior Notes (note 5)	**-**	96,278
Distributions to Unitholders	**(17,550)**	(41,400)
Issuance of Trust Units	**91,950**	-
	74,400	(40,122)
INVESTMENTS:		
Reclamation trust	**(816)**	(763)
Capital assets	**(49,550)**	(35,358)
	(50,366)	(36,121)
INCREASE IN CASH	**62,312**	2,144
CASH AT BEGINNING OF YEAR	**21,268**	19,124
CASH AT END OF YEAR	**$ 83,580**	$ 21,268

See accompanying notes

(All tabular amounts are in thousands, except per barrel amounts)

1. GENERAL

Canadian Oils Sands Trust (the "Trust") is a closed-end investment trust formed under the laws of the Province of Alberta pursuant to a Trust Indenture dated April 19, 1996. The Trust commenced operations on June 20, 1996 when a subsidiary of the Trust, Canadian Oil Sands Investments Inc. ("Canadian Oil Sands"), acquired a 10 percent interest in a Joint Venture (the "Working Interest") involved in the mining and upgrading of bitumen from oil sands in Northern Alberta (the "Syncrude Joint Venture"). The Working Interest acquired by Canadian Oil Sands is subject to a royalty interest held by the Trust equal to 99 percent of the revenues from the sale of the Working Interest's share of production less certain defined costs and debt repayments incurred by Canadian Oil Sands (the "Trust Royalty").

2. SUMMARY OF ACCOUNTING POLICIES

(a) Consolidation

These consolidated financial statements include the accounts of the Trust and Canadian Oil Sands. The activities of the Syncrude Joint Venture are conducted jointly with others, and accordingly, these financial statements reflect only Canadian Oil Sands' proportionate interest in such activities which include the production volumes, operating costs, capital expenditures and associated amounts payable. Substantially all other activities and balances in these financial statements, including sales, are applicable directly to the Trust or Canadian Oil Sands.

(b) Capital Assets

Capital assets are recorded at cost and include the costs of acquiring the Working Interest, the initial issuing costs of the Trust Units and subsequent additions to property, plant and equipment. Repairs and maintenance costs are charged to expense in the period incurred. Proceeds from the sale of plant and equipment are normally deducted from the capital base without recognition of a gain or loss.

Capital costs are amortized on the unit-of-production method based on estimated proven reserves at existing mine sites and permit life of the Syncrude Joint Venture. For purposes of the depletion provision, capital costs include additional capital costs expected to be necessary in the mining, extraction and upgrading process to recover the estimated proven reserves. Included in capital assets at December 31, 1998 are costs of $35.7 million ($1.5 million at December 31, 1997) related to mine development costs that have been excluded from costs subject to depletion.

Estimated site restoration and reclamation costs are provided for on the unit-of-production method based on estimated proven reserves. Actual costs are charged against the accumulated provision when incurred.

(c) Inventories

Inventories of intermediate products of Syncrude Sweet Blend are valued at the lower of the average cost of production for the period and their net realizable value. Materials and supplies inventories are valued at the lower of average cost and replacement cost.

(d) Foreign Currency Translation

Transactions in foreign currency are translated into Canadian dollars at the exchange rates prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at period end exchange rates. Exchange gains and losses are included in earnings, except for the gains and losses on the 7.625% Senior Notes which are deferred and amortized over the remaining term of the notes.

(e) Derivative Instruments

Canadian Oil Sands enters into foreign exchange and oil price contracts to hedge the effect of exchange rate and oil price fluctuations. Gains and losses on forward contracts are deferred and recognized as a component of the sales revenues.

Canadian Oil Sands also enters into interest rate swap agreements to manage its interest rate risk. The gains and losses arising from these instruments are included in interest expense.

(f) Revenue

Revenue from the sale of Syncrude Sweet Blend and other products is recorded at the plant gate and is net of a marketing fee paid to PanCanadian Petroleum Limited (see note 9).

(g) Comparative Figures

Certain comparative figures have been restated to conform to the presentation adopted for the current year.

3. OTHER LIABILITIES

	1998	1997
Energy Sales Agreement and other(a)	$ 5,779	$ 5,472
Deferred payments on mineral lease acquisitions(b)	3,275	1,575
Accrued pension benefits(c)	5,624	7,318
	$ 14,678	$ 14,365

(a) Energy Sales Agreement and Other

Under the terms of an Energy Sales Agreement covering power purchases from a plant which provides electrical energy and steam to the Syncrude Joint Venture, a cost of service fee totalling $4.8 million is payable in equal monthly installments commencing on April 1, 1999 and continuing until March 31, 2003. The residual amount represents the present value of future payments for assets acquired using capital lease financing.

(b) Deferred Payments on Mineral Lease Acquisitions

Canadian Oil Sands, as an owner of the Syncrude Joint Venture, has entered into agreements to purchase oil sands leases which require additional payments in future years. These future payments total $3.3 million and are payable as to $1.9 million in 1999, $0.5 million in 2000 and $0.9 million in 2003.

(c) Pension Plan Accrual

Syncrude Canada Ltd., the operator of the Syncrude Joint Venture, has a defined benefit pension plan which covers substantially all of its employees. The Plan provides pension benefits upon retirement based on length of service and the highest three years average earnings during the last ten years of service with Syncrude Canada Ltd.

Canadian Oil Sands' 10 percent share of the present value of accrued pension benefits and the market value of the Plan assets available to provide for these benefits is as follows:

	1998	1997
Accrued pension benefits	$ 58,182	$ 53,611
Plan assets	$ 64,411	$ 58,413

4. BANK CREDIT FACILITIES

Canadian Oil Sands has unsecured lines of credit totalling $250 million comprised of a $220 million Revolving Term Credit Facility and $30 million Extendible Revolving Facility. The $30 million Extendible Revolving Facility enables working capital needs to be borrowed and repaid and re-borrowed until 2003. The term of this facility may be extended on an annual basis with the agreement of the bank. Amounts borrowed through the facility bear interest at a floating rate based on Bankers' Acceptances plus 0.40 of one percent while any unused amounts are subject to a 0.12 of one percent per annum standby fee. As at December 31, 1998, there were no amounts drawn under the Extendible Revolving Facility.

The $220 million Revolving Term Credit Facility provides for funds to be borrowed and repaid and re-borrowed for a period of five years after which the amount then outstanding converts to a five year term loan with semi-annual repayments. Amounts borrowed through this facility bear interest at a floating rate based on Bankers' Acceptances plus 0.50 of one percent. The unused amount of the facility is subject to a 0.125 of one percent per annum standby fee. As at December 31, 1998, there were no amounts drawn under the Revolving Term Credit Facility.

These credit agreements contain covenants which restrict Canadian Oil Sands' ability to sell assets or engage in activities other than the ownership of oil sands assets. In addition, Canadian Oil Sands has agreed to maintain its debt to total capitalization ratio at an amount less than 0.45 to 1.0 and not to make distributions to Unitholders if its debt is greater than 3.5 times its earnings before interest, taxes, depreciation and amortization, on a four quarter rolling basis.

Pursuant to its Articles of Incorporation as amended on June 6, 1996, Canadian Oil Sands shall not incur Indebtedness for Borrowed Money which when incurred exceeds 45 percent of its Borrowing Base. The Borrowing Base is defined as an amount equal to $379.8 million adjusted for acquisitions and divestitures of working interests in the Syncrude Joint Venture plus the unamortized amount of capital expenditures incurred to increase, rather than sustain, production from the Syncrude Joint Venture. As at December 31, 1998, the Borrowing Base was $425.1 million.

5. 7.625% SENIOR NOTES

On May 20,1997, Canadian Oil Sands issued US$70 million of 7.625% Senior Notes due May 15, 2007 to replace the bank debt incurred to finance the acquisition of the Working Interest. The 7.625% Senior Notes are unsecured obligations of Canadian Oil Sands, rank pari passu with all other unsecured and unsubordinated indebtedness and restrict Canadian Oil Sands' ability to sell assets. After giving effect to the interest rate swap agreements (see note 8), the effective interest rate on the 7.625% Senior Notes was 6.0 percent in 1998 compared to 4.2 percent in 1997 on the 7.625% Senior Notes and acquisition bank loan.

6. PREFERRED SHARES OF CANADIAN OIL SANDS

In connection with the acquisition of the Working Interest, Canadian Oil Sands issued 1,000 preferred shares to PanCanadian Petroleum Limited for aggregate consideration of $2.0 million. The preferred shares entitle the holder to a cumulative annual dividend, payable quarterly, of 11 percent of the issue price of the preferred shares to the end of 1997, and thereafter, a cumulative dividend of 15 percent. The preferred shares are retractable at the option of PanCanadian under certain conditions relating to the continuation of the Trust, the disposition of the Trust Royalty, the continuation of the administrative services agreement between PanCanadian and Canadian Oil Sands and upon the non-payment of dividends for a total of five years. The preferred shares also entitle the holder to elect two directors to Canadian Oil Sands' Board of Directors.

7. UNITHOLDERS' EQUITY

A maximum of 500 million Trust Units have been created for issuance pursuant to the Trust Indenture.

The Trust Units represent beneficial interests in the Trust. All Trust Units will share equally in all distributions from the Trust and carry equal voting rights. No conversion, retraction or pre-emptive rights attach to the Trust Units.

As at December 31, 1998, there were 27,000,010 Trust Units issued and outstanding (23,000,010 Trust Units as at December 31, 1997). In 1996, there were 23,000,010 Trust Units issued for cash consideration of $319.0 million with the related underwriting fees and issue costs totalling $21.1 million capitalized as a Capital Asset. On February 19, 1998, there were 4,000,000 Trust Units issued at a price of $24.00 per Trust Unit for net proceeds of $92.0 million, after $4.0 million of underwriting fees and issue costs.

(All tabular amounts are in thousands, except per barrel amounts)

8. FINANCIAL INSTRUMENTS

The fair value of financial instruments that are included in the consolidated balance sheet, including the 7.625% Senior Notes, approximate their recorded amount due to the short term maturity of the instruments.

Canadian Oil Sands has entered into currency exchange contracts, interest rate swap agreements and oil price contracts to minimize the impact of fluctuations in currency exchange rates, interest rates and crude oil prices. Unrecognized gains (losses) on these risk management activities at the end of the respective years were as follows:

	1998	1997
Currency Exchange Contracts (a)	$ (66,705)	$ 29,798
Interest Rate Swaps (b)	15,245	11,860
Crude Oil Price Contracts (c)	-	3,201
Total Unrecognized Gains (Losses)	$ (51,460)	$ 44,859

(a) Currency Exchange Contracts

In 1996, Canadian Oil Sands entered into currency exchange contracts fixing the exchange rate on US$1.5 billion at approximately US$0.694 per Canadian dollar with quarterly cash settlements until June 2016. During 1998, Canadian Oil Sands entered into another currency exchange contract fixing the exchange rate on US$5.0 million per quarter to December 31, 2002 at approximately US$0.692 per Canadian dollar with the counter-party receiving an option to extend the contract for a further five years at the same exchange rate. As at December 31, 1998, the unrecognized loss on its currency exchange contracts was $66.7 million compared to an unrecognized gain of $29.8 million at the end of 1997.

During 1998, Canadian Oil Sands settled US$63.0 million of currency exchange contracts at a net cost of $3.0 million; in 1997, it settled US$48.0 million of currency exchange contracts realizing a gain of $2.7 million. These gains and losses have been recorded as adjustments to revenues from the sale of Syncrude Sweet Blend in the financial statements.

(b) Interest Rate Swap Agreements

Subsequent to issuing the 7.625% Senior Notes, Canadian Oil Sands entered into interest rate swap agreements to convert the fixed rate US dollar payments on the 7.625% Senior Notes to a 5.95 percent fixed rate US dollar payment for the remaining term. As at December 31, 1998, the unrecognized gain on these interest rate contracts was $15.2 million compared to $11.9 million at the end of 1997.

In 1998, Canadian Oil Sands received payments totalling $1.8 million in respect of cash settlements on these interest rate swap agreements resulting in an effective interest rate on the 7.625% Senior Notes of 6.0 percent in 1998. In 1997, net cash settlements totalling $2.0 million were received by Canadian Oil Sands resulting in an effective interest rate of 4.2 percent. The settlements on these contracts have been recorded as a reduction to interest expense in the financial statements.

(c) Crude Oil Price Contracts

During 1997, Canadian Oil Sands entered into oil price put options providing a floor price of US$21.00 per barrel for 7,000 barrels per day of first quarter 1998 production at a cost of US$0.95 per barrel. As at December 31, 1997, the unrecognized gain on these oil price contracts was $3.2 million. Canadian Oil Sands has not entered into any oil price contracts for periods beyond December 31, 1998.

The cash settlement received by Canadian Oil Sands in 1998 in respect of oil price hedging totalled $4.5 million and has been recorded as an increase to the revenues from the sale of Syncrude Sweet Blend in the financial statements. Recorded as a reduction to the 1997 revenues from the sale of Syncrude Sweet Blend is a net loss from oil price hedging totalling $2.5 million.

(d) Credit Risk

The use of financial instruments involves a degree of credit risk which Canadian Oil Sands manages through its credit policies and selecting counter–parties of high credit quality. Canadian Oil Sands does not expect any counter–party to fail to meet its obligations.

9. RELATED PARTY TRANSACTIONS

PanCanadian Petroleum Limited was the initial promoter of the Trust, was the vendor of the Working Interest acquired by Canadian Oil Sands and holds 1,000 preferred shares of Canadian Oil Sands. PanCanadian has entered into the following agreements with Canadian Oil Sands:

(a) An administrative services agreement whereby PanCanadian provides administrative and support services to Canadian Oil Sands for an initial period extending to 2003 and receives a fee equal to 2.75 percent of the revenue from the Working Interest less operating costs and Crown Royalties. For the year ended December 31, 1998, PanCanadian received $1.6 million pursuant to this agreement ($2.4 million for the year ended December 31, 1997).

(b) A marketing agreement whereby PanCanadian markets all production from the Working Interest on behalf of Canadian Oil Sands for an initial period to 2003 and receives a fee equal to $0.05 per barrel. For the year ended December 31, 1998, PanCanadian received $0.4 million pursuant to this agreement ($0.4 million for the year ended December 31, 1997).

During 1998, the owners of the Syncrude Joint Venture agreed to purchase an oil sands lease; Canadian Oil Sands' interest in this lease acquisition cost $1.6 million with $0.8 million paid in 1998 at closing and a further $0.8 million to be paid in 1999. As one of the vendors in this sales agreement, PanCanadian has received $917,000 in 1998 and will receive a further $917,000 in 1999 in respect to this lease sale.

In addition, PanCanadian received $750,000 in 1998 from the owners of the Syncrude Joint Venture as the 4th installment pursuant to another oil sands lease sales agreement. There remains one further payment of $1 million due in June 2003 in respect of this oil sands lease sales agreement.

10. CROWN ROYALTY

The Alberta Crown Agreement creates a Joint Venture between the Province of Alberta as lessor and the owners of the Syncrude Joint Venture as lessees. Its purpose is to annually establish, using a deemed net profit concept, the basis on which Syncrude's annual production is to be shared by the lessor and each of the lessees.

Commencing on January 1, 1997, the Alberta Crown Agreement provides that the Province of Alberta shall be entitled to a royalty of 50 percent of the deemed net profit on the first 74 million barrels of annual production less a credit equal to 43 percent of capital expenditures. The deemed net profit is determined by deducting from the deemed gross revenue the aggregate of allowed operating costs, deemed interest expense and amortization of capital costs and any loss carry-forwards. For annual production in excess of 74 million barrels, the Province of Alberta is entitled to a royalty of 25 percent of the deemed net profit after deducting capital expenditures with a minimum payment of one percent of gross revenue. These provisions will be in effect until the earlier of December 31, 2003 or the last day of the month in which the aggregate of Syncrude's capital spending incurred after December 31, 1995 equals $2.8 billion. To the end of 1998, the aggregate capital spending after 1995 totalled $1.0 billion.

Subsequently, the Alberta Crown Agreement will entitle the Province of Alberta to a royalty payment equivalent to 25 percent of the deemed net profit as defined above after deducting capital expenditures.

11. INCOME AND OTHER TAXES

As at December 31, 1998, Canadian Oil Sands had Undepreciated Capital Costs aggregating to $92.6 million which are deductible on a declining balance basis at an average rate of 25 percent per annum.

As at December 31, 1998, the Trust had Canadian Development Expenditures aggregating to $237.3 million which are deductible on a declining balance basis at a rate of 30 percent annually and unclaimed issue costs aggregating to $11.9 million which are deductible on a straight line basis over the next four years.

12. FUTURE SITE RESTORATION AND RECLAMATION COSTS

Canadian Oil Sands and each of the other owners of the Syncrude Joint Venture are liable for their share of ongoing environmental obligations for the ultimate reclamation of the Syncrude Joint Venture upon abandonment.

Canadian Oil Sands has agreed to deposit $0.10 per barrel, rising to $0.12 per barrel in 2001 (to be adjusted for inflation) of Syncrude Sweet Blend produced and attributable to the Working Interest to a reclamation trust established for the purpose of funding Canadian Oil Sands' share of environmental and reclamation obligations in connection with the Syncrude Joint Venture. Including interest earned on contributions, the reclamation trust has accumulated $2.0 million of marketable securities to the end of 1998.

The provision for future site restoration and reclamation costs at a rate of $0.15 per barrel produced has aggregated to $1.2 million at the end of 1998 ($1.1 million in 1997). The annual provision for future site restoration and reclamation costs has been included in the provision for depletion, depreciation and amortization.

13. NATURAL GAS PURCHASE COMMITMENTS

The Syncrude Joint Venture has entered into long-term natural gas purchase contracts which are subject to an annual price adjustment. As at December 31, 1998 and based on current prices, Syncrude is required to pay a minimum of approximately $101.6 million annually; the Canadian Oil Sands' 10 percent share is $10.2 million. The contracts expire at varying dates until 2003.

14. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect Canadian Oil Sands' ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting Canadian Oil Sands, including those related to the efforts of customers, suppliers or other third parties will be resolved.

Supplemental Information

(in thousands of dollars, except as otherwise indicated)

Quarterly Statement of Trust Royalty and Distributable Income

	Year Ended December 31, 1998				Year Ended December 31, 1997				From Formation to December 31, 1996	
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	June 20, 1996 to September 30, 1996
Revenues	$ 37,521	$ 42,077	$ 40,297	$ 37,617	$ 59,983	$ 58,611	$ 42,897	$ 49,005	$ 56,353	$ 62,295
Operating Costs	(25,083)	(27,151)	(24,800)	(26,398)	(23,528)	(25,912)	(30,771)	(23,557)	(23,697)	(27,149)
Crown Royalties	(55)	–	–	–	(9,420)	(8,168)	3,929	(6,525)	(13,810)	(15,645)
Administration Expenses	(692)	(835)	(780)	(586)	(1,022)	(947)	(695)	(679)	(697)	(794)
Interest Expenses	(1,835)	(1,746)	(1,651)	(1,440)	(1,011)	(1,097)	(1,139)	(1,023)	(1,186)	(1,535)
Large Corporation Tax	(112)	(105)	(93)	(85)	(82)	(77)	(70)	(89)	(60)	(62)
	9,744	12,240	12,973	9,108	24,920	22,410	14,151	17,132	16,903	17,110
Capital Expenditures	(11,702)	(13,174)	(16,306)	(8,368)	(7,538)	(9,251)	(11,814)	(6,755)	(7,760)	(6,418)
Utilization of Expansion Financing	3,800	5,500	5,300	3,000	–	–	–	–	–	–
Mining Reclamation Trust	(230)	(226)	(201)	(159)	(215)	(220)	(158)	(170)	(193)	(222)
Site Restoration Costs	–	–	–	(323)	(49)	–	(14)	(262)	–	–
Reserve - future production costs	144	(2,131)	2,131	3,173	(3,092)	(1,205)	2,595	(1,580)	(44)	–
Base for Trust Royalty	$ 1,756	$ 2,209	$ 3,897	$ 6,431	$ 14,026	$ 11,734	$ 4,760	$ 8,365	$ 8,906	$ 10,470
Trust Royalty 99% of Base	$ 1,738	$ 2,187	$ 3,858	$ 6,367	$ 13,886	$ 11,616	$ 4,713	$ 8,281	$ 8,817	$ 10,365
Distribution of Excess Cash	–	–	–	–	–	–	–	3,353	–	2,376
Interest Earned on Short Term Investments	1,073	1,086	1,107	515	–	–	–	–	–	–
Administration Expenses of Trust	(69)	(75)	(105)	(132)	(88)	(116)	(113)	(134)	(77)	(91)
Distributable Income	$ 2,742	$ 3,198	$ 4,860	$ 6,750	13,798	$ 11,500	$ 4,600	$ 11,500	$ 8,740	$ 12,650
Distributable Income per Trust Unit	$ 0.10	$ 0.12	$ 0.18	$ 0.25	$ 0.60	$ 0.50	$ 0.20	$ 0.50	$ 0.38	$ 0.55
Cash Flow from Operations per Trust Unit	$ 0.41	$ 0.50	$ 0.52	$ 0.38	$ 1.08	$ 0.98	$ 0.62	$ 0.88	$ 0.73	$ 0.74
Net Income per Trust Unit	$ 0.10	$ 0.22	$ 0.22	$ 0.14	$ 0.74	$ 0.63	$ 0.38	$ 0.48	$ 0.40	$ 0.49
Daily Average Sales (Bbls)	23,166	22,464	21,136	16,907	23,002	23,533	17,143	18,839	20,877	21,571
West Texas Intermediate Average Price (US$)	$ 12.92	$ 14.15	$ 14.68	$ 15.95	$ 19.94	$ 19.80	$ 19.94	$ 22.77	$ 23.92	$ 22.14
Netback Price										
After Hedging Settlements										
Average Selling Price	$ 17.79	$ 20.24	$ 20.86	$ 24.68	$ 28.30	$ 27.11	$ 27.47	$ 28.68	$ 29.27	$ 28.43
Crown Royalties	(0.03)	–	–	–	(4.45)	(3.77)	2.52	(3.85)	(7.19)	(7.11)
Operating Costs	(11.77)	(13.14)	(12.90)	(17.34)	(11.12)	(11.97)	(19.73)	(13.90)	(12.33)	(12.34)
Netback Price	$ 5.99	$ 7.10	$ 7.96	$ 7.34	$ 12.73	$ 11.37	$ 10.26	$ 10.93	$ 9.75	$ 8.98
Unit Trading Activity										
Unit Price ($) - High	$ 21.45	$ 20.75	$ 23.45	$ 27.25	$ 28.75	$ 28.90	$ 24.45	$ 23.00	$ 21.00	$ 18.00
- Low	$ 17.00	$ 15.00	$ 18.50	$ 19.60	$ 23.75	$ 23.05	$ 19.90	$ 19.80	$ 17.90	$ 14.20
- Close	$ 17.75	$ 20.25	$ 20.85	$ 22.40	$ 27.00	$ 28.00	$ 24.10	$ 21.45	$ 20.50	$ 17.95
Volume Traded (in 000's)	1,393	2,987	2,793	3,403	2,115	3,243	4,480	8,183	10,624	6,607

The Syncrude Joint Venture A Ten Year History

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Annual Shipments of Syncrude Sweet Blend (millions of barrels)	76.7	75.7	73.5	73.9	69.8	67.0	65.4	60.3	57.1	54.0
Unit Operating Costs Per Barrel	$ 13.57	$ 13.77	$ 13.70	$ 13.69	$ 14.98	$ 15.47	$ 15.39	$ 16.51	$ 17.41	$ 17.17
Capital Expenditures (millions of dollars)	$ 480.5	$ 354.9	$ 213.8	$ 204.2	$ 141.5	$ 87.6	$ 79.2	$ 157.5	$ 139.1	$ 84.3
Workforce Productivity (barrels per employee)	21,443	21,549	21,343	20,122	18,004	16,101	15,185	13,596	12,560	11,686

Canadian Oil Sands Directors

(left to right)

Mackenzie Kwan, Chuck Shultz, John Zaozirny, Wayne Newhouse, Brian Stevens

DIRECTORS

C. E. (Chuck) Shultz
Chairman of the Board
Chief Executive Officer, Dauntless Energy Inc.

M. M. L. Kwan
Director
Senior Vice President and Chief Financial Officer, PanCanadian Petroleum Limited

W. M. Newhouse
Director
President,
Newhouse Resource Management Ltd.

B.A. Stevens
Director
Chief Executive Officer,
Canadian Oil Sands Investments Inc.
General Manager Weyburn Business Unit, PanCanadian Petroleum Limited

J. B. Zaozirny
Director
Counsel, McCarthy Tétrault

OFFICERS

R. W. Fotheringham
Chief Financial Officer
Canadian Oil Sands Investments Inc.

R. A. Shaw
Corporate Secretary
Partner, McCarthy Tétrault

K.L. Wiwchar
Assistant Corporate Secretary
Partner, McCarthy Tétrault

INVESTOR AND ANALYST CONTACT

Additional information, including investor relations inquiries, may be obtained by contacting the Head Office of Canadian Oil Sands Investments Inc. at:

P.O. Box 2850
150 – 9th Avenue S.W.
Calgary, Alberta T2P 2S5
Telephone: (403) 290-3332
Fax: (403) 290-2777
Internet: www.canadianoilsandstrust.com

DISTRIBUTIONS

Subject to the approval of the Board of Directors, Unitholders are entitled to receive quarterly Cash Distributions based on the net cash flow generated by the royalty after certain costs and deductions. Quarterly distributions for 1998 were paid on May 15 to Unitholders of record on May 8, August 14 to Unitholders of record on August 7, November 13 to Unitholders of record on November 6 and February 15, 1999 to Unitholders of record on February 8, 1999.

For the 1999 fiscal year, Cash Distributions will be paid on May 14 to Unitholders of record on May 7, August 13 to Unitholders of record on August 6, November 15 to Unitholders of record on November 8 and February 15, 2000 to Unitholders of record on February 7, 2000.

ANNUAL MEETING

The annual meeting of the Unitholders of the Canadian Oil Sands Trust will be held on Thursday, April 22, 1999 at 11:00 a.m. in the Turner Valley Room of the Palliser Hotel, 133 – 9th Avenue S.W., Calgary, Alberta.

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
Vancouver, Calgary, Regina, Toronto, Montreal, Saint John, Charlottetown, and St. John's in Canada. Montreal Trust is also the Trustee of the Trust.

Unitholders' change of address or inquiries regarding Trust Units or distributions should be directed to:

Montreal Trust Company of Canada
Suite 600, 530 – 8th Avenue S.W.
Calgary, Alberta, Canada T2P 3S8
Attention: Stock Transfer
Shareholder Communications
Telephone: (403) 267-6555

LISTING OF TRUST UNITS

At December 31, 1998, Canadian Oil Sands' 27 million Trust Units were held by investors in Canada and internationally. The Trust Units are listed on The Toronto Stock Exchange and trade under the symbol CO.UN.

Designed and produced by Sutton Javelin Corporate Communications, Calgary.

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CANADIAN OIL SANDS TRUST